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## INFLUENCE ANALYSIS OF FORCED DISTRIBUTION RATING PERFORMANCE APPRAISAL AND MERIT PAY TO PERFORMANCE OF DIRECTORATE GENERAL OF TAXES'S EMPLOYEES WITH JOB SATISFACTION AS INTERVENING VARIABLE AT BLORA TAX SERVICE OFFICE

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### ABSTRACT

*This study aims to analyze and determine influence of forced distribution rating performance appraisal and merit pay toward performance of Directorate General of Taxes's employees with job satisfaction as intervening variable at Blora Tax Service Office. Technique used for this study is census then data analyzed with SmartPLS. This research's subjects are 80 low management employees at Blora Tax Service Office. The result of this research shows that forced distribution rating performance appraisal and merit pay don't affect directly on employee's performance. But forced distribution rating performance appraisal and merit pay have positive and significant effect on job satisfaction while job satisfaction has positive and significant effect on performance. Then indirectly through job satisfaction, forced distribution rating performance appraisal and merit pay have positive and significant effect to employee's performance. This result shows that job satisfaction is a suitable intervening variable for this research. Based on this research, it is suggested for future managerial policy with goal to increase performance, job satisfaction should be one of deciding factors.*

**Keywords:** forced distribution rating performance appraisal, merit pay, job satisfaction, performance

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## INTRODUCTION

Directorate General of Taxation is an institute below Ministry of Finance of the Republic Indonesia that holds a crucial role in state budget through tax (Kemenkeu, 2019). To fulfill that role, Ministry of Finance of the Republic Indonesia issued regulation number 211/PMK.03/2017 about the calculation procedure of employee allowances which was applied in 2018 and still in effect when this research was conducted. In regulation 211/PMK.03/2017 article 10-11 it is stated regulation about Forced Distribution Rating Performance Appraisal (hereinafter referred as FDRPA) and article 17-19 about merit pay. FDRPA and merit pay system then enforced to all organization unit below Directorate General of Taxation including Blora Tax Service Office.

**Table 1.**  
**Tax Revenue at Blora Tax Service Office Year 2015-2019**

Year	Tax Revenue Target	Tax Revenue Realization	Target Realization Percentage
2015	662.678.498.000	483.552.611.787	73%
2016	712.029.078.000	532.199.974.443	75%
2017	711.062.074.000	547.341.682.373	77%
2018	712.822.437.000	648.387.604.006	91%
2019	762.436.009.000	688.414.953.480	90%

At Blora Tax Service Office, Since the implementation of 211/PMK.03/2017 at year 2018, tax revenue target realization percentage improved drastically from around 70% to 90%. Even though in year 2019 the percentage dropped down 1% from 91% in year 2018 to 90% at year 2019 but total amount tax collected improved significantly. But even with these improved tax collection percentages, there is still no evidence that FDRPA and merit pay have an impact on performance and match with their initial purpose which is to improve employee performance.

According to Kuwati (2011), one of the ways to optimize performance is by designing correct performance appraisal and execute it properly so employees will be motivated to do their jobs and responsibilities. It is also important to give feedback according to each performance with financial or non-financial feedback such as promotion or training to improve motivation and job satisfaction. If employees are satisfied with their job, they will try as much as possible within their capabilities to complete every task. Ultimately, their productivity and output will increase optimally (Badriyah, 2015).

This research is based on evidence gap between research by Berger (2013) which stated that implementation of FDRPA has positive effect on employee performance which is conflicting with research by Bates (2003) that suggested that FDRPA has negative impact on employee performance. Other evidence gap is about merit pay partial effect on performance, if research by Prianti (2015) stated that merit pay has no significant effect on performance, while research by Septiany (2018) suggests that merit pay has positive and significant effect on performance. In Indonesia, research with purpose to know the influence of FDRPA and merit pay as a side-by-side

system on performance and job satisfaction as intervening variable is a very rare. Previous research by Hidayat (2019) and Nastiti (2019) only analyzed impact of FDRPA on performance. Nugraha (2017) researched merit pay's influence on performance while Septiany (2018) analyze influence of merit pay and workload on performance.

Previous researches are less representative of what this research wants to achieve such as researches from Hidayat (2019), Nastiti (2019), Nugraha (2017), and Septiany (2018) only used variable used in this research partially. On the other side, researchers such as Bates (2003), Amalfe & Adelman (2002), and Osborne & McCann 2004 focused their research on profit organizations, while this research focused on non-profit organization (government organization). In implementation of FDRPA, Directorate of General Taxation uses different grades system than other organizations. FDRPA in Directorate of General Taxation uses five grades which S rank at top 15%, followed by A rank at 20%, B rank at 20%, C rank at 20% and D rank at last 15%. While General Electric as FDRPA's pioneer uses three grades which 20% as top performer, 70 % as average performer and 10% as low performer (Krames, 2002).

And for merit pay in Directorate of General Taxation calculate compensation based on individual performance, organizational unit performance, and 'konstanta'. This concept is different than merit pay in other organizations such as Teacher Advancement Program (TAP) from Milken Family Foundation in year 1999. TAP system applied by 180 schools in United States of America and based on performance, observation, and students test results (Pham et al, 2020). Another difference is merit pay in Directorate of General Taxation only effect allowance while others may affect salary, wage or entire take-home pay.

## **LITERATURE REVIEW**

### **Forced Distribution Rating Performance Appraisal (FDRPA)**

The forced distribution rating system (FDRS) is a performance appraisal system that forces supervisors to distribute a predetermined percentage of employees in categories based on their employees' performance relative to other employees' performance (Moon et al, 2015). After supervisors rate their employees, system can determine which employees are categorized as above average, average, and below-average (Blume et al 2009).

### **Merit Pay**

Wirawan (2015) stated that merit pay is a financial compensation given to an individual as a result of performance evaluation. The implication of merit pay system is if employees performed well, they will be rewarded nicely and while employees performed poorly, they will receive less compensation than others. The main purpose of this system is to motivate employees to improve their performance.

### **Job Satisfaction**

Robbins & Judge (2013) defines job satisfaction as a general attitude towards one's job; the difference between the amount workers receive and the amount they believe they should receive. Positive and favourable actions towards the job shows a level job satisfaction, negative and unfavourable attitudes towards the job indicate job dissatisfaction. George and Jones (2005) said that job satisfaction is the collection of feelings and beliefs that people have about their current jobs. People's levels or degrees of job satisfaction can range from extreme satisfaction to extreme dissatisfaction

### **Performance**

Setiawan dan Waridin (2006) stated that employee performance refers to result or achievement rated on quantity and quality based on some standards determined by organization.

In order to achieve its goals, organization must formulate a strategy to encourage employees to reach high-level performance.

### **FDRPA's influence on performance**

Importance of performance appraisal for organization is to evaluate their employees according their duty, ensure employees do the job according organization's standard and to decide what kind of reward or punishment will be given. This is why finding right and suitable performance appraisal method is just as important. Research in performance appraisal has demonstrated that performance appraisal characteristics (such as appraisal purpose and source) can elicit positive employee reactions to performance appraisal and, which in turn, can motivate employees to improve their performance.

FDRPA has incentive effect where manager rewards top performers with salary raise or promotion, giving lower incentive for average performer and let go bottom performers. Expectancy theory explains that connecting incentive with performance will motivate effort and performance (Rynes et. al. 2015). Based on theory above it can be concluded that FDRPA can stimulate employee performance. Therefore we propose the following hypothesis.

*H1: FDRPA directly influence employee performance in Blora Tax Service Office*

### **Merit pay's influence to performance**

Merit pay refers to financial compensation system based on performance appraisal in an organization. Merit pay planning is a process to differentiate compensation amount based on each individual's evaluation at performance appraisal usually according to measurable criteria over a predetermined period of time. Performance appraisal is an inseparable process when management wants to apply a good merit pay system, because in general assumptions that merit pay is compensation for top performer and for others to improve their performance in the future.

Merit pay is one of the factors that influence employee performance (Wirawan, 2015). Selecting the correct merit pay method can make difference whether the system is working as intended or not. With reward system that is tied to performance, it enables employees to be motivated to do their job optimally. Employees will be more responsible for their duty, if they feel they have been compensated fairly. This leads us to the following hypothesis.

*H2: Merit pay directly influence employee performance in Blora Tax Service Office*

### **FDRPA's influence to job satisfaction**

Formal performance appraisals (PA) by supervisors are one of the most important human resource management practices (Murphy & Cleveland, 1995). They are designed to control and motivate employees to manage and improve their future performance (DeNisi & Pritchard, 2006; Selvarajan & Cloninger, 2012).

Dissatisfaction and unfairness in appraisal and evaluation process can cause performance appraisal to fail (Taylor et al., 2012). There are three job satisfaction elements related to performance appraisal. The first element is satisfaction towards position in ranking, as in higher ranking will induce higher satisfaction to performance appraisal process. The second element is satisfaction to rater. Employees may doubt accuracy of the information provided by the appraiser or rater when it rater's role is assigned to someone they don't trust. And the last element is feedback. Fair feedback can improve job satisfaction when it is delivered in positive manner (Kacmar et al., 2013).

According to Mello (2015) FDRPA is the best way to identify top performer employees who deserve suitable reward, and low performer employees who should be assisted or fired. But FDRPA often perceived negatively by many organization (Roch et al, 2007). Many researchers

and practitioners have also identified that FDRPA leads the employees towards extreme level of job dissatisfaction (Pfeffer & Sutton, 2006). This is caused by rater being forced to distribute employees to grades which has not proven fair and objective. Therefore we propose the following hypothesis.

*H3: FDRPA directly influence to employee job satisfaction at Blora Tax Service Office*

### **Merit Pay's influence to job satisfaction**

Merit pay is a form of compensation where individuals receive reward financially based on performance evaluation with purpose to stimulate better performance Wirawan (2015). Job satisfaction will be fulfilled when compensation is just, standardized, personalized to skill level and job difficulty (Robbins 2008). Most literature agreed upon opinion that compensation has significant impact to performance and ultimately causes job satisfaction (Gavin & Vinten, 2005). Compensation is considered as one of key factors to job satisfaction because individuals can do transactions financially (Esen, 2006; Kickham, 2007 in Sihombing 2009). Furthermore, compensation can also play role as symbol of achievement and success. Power, prestige, status and desire are psychological and emotional effects of money. Taylor (1911) in Sihombing (2009) stated that large sum of compensation can be concluded as best predictor of job satisfaction. This leads us to the following hypothesis.

*H4: Merit pay directly influence to employee job satisfaction at Blora Tax Service Office*

### **Job Satisfaction's influence to performance**

Luthans (2006) mentioned that job satisfaction influences performance, if employees have high level job satisfaction it will affect performance improvement even though indirectly. Job Satisfaction's influence on performance is affected by appreciation and employee turnover. If employees feel they got appreciation they deserved, they will produce better output. High level job satisfaction will not decrease employee turnover rate but if there is no job satisfaction, employee turnover rate will be high.

The relationship between job satisfaction and performance can be categorized as causality. But based on many researches there is evidence that an organization with more satisfied employees more likely to perform more effectively rather than an organization with low satisfied employees (Robbins, 2008). Research from Argensia et al (2014) stated that there is positive and significant effect of job satisfaction on performance. Research form Kurniawati et al (2015) also founded similar result. Therefore we propose the following hypothesis.

*H5: Job Satisfaction directly influence to performance at Blora Tax Service Office*

### **FDRPA's influence to performance with job satisfaction as an intervening variable**

Someone tend to work passionately when reached satisfaction from their job and job satisfaction is key to improve morale, discipline and achievement that will lead to reach organization goal. Allen in Surodilogo (2010) also said that organization with perfect planning will not be able to reach its goal as intended if employees don't do the job in happy and passionate manner. From statement above we can conclude that human resources have a crucial role in organization to reach its goal because satisfied employees will work better and more productive. Hutagalung & Perdhana (2016) stated that employees's attitude while working shows how satisfied they are in the organization. Job satisfaction refers to a positive feeling about job, which is created from evaluation of its characteristics. Job satisfaction level (either low or high) can cause employees to quit, raise their voices, loyal or stay dedicated. Robbins (2008) also stated that a happy worker is a productive worker. These statements lead to the following hypothesis:



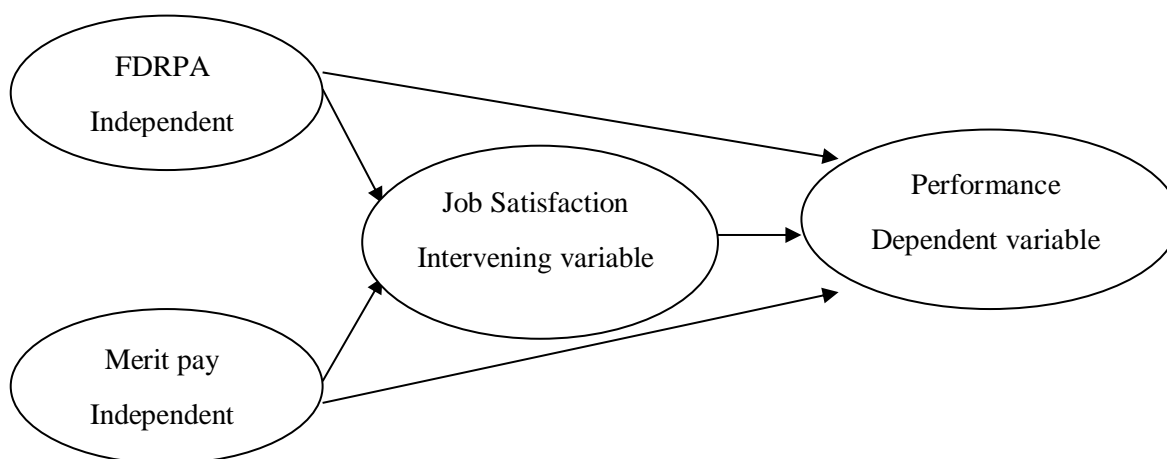
*H6: FDRPA influence to performance through job satisfaction as intervening variable*

### **Merit pay's influence to performance with job satisfaction as an intervening variable**

Satisfaction on compensation is one of the main elements to achieve job satisfaction. It means that when employees feel satisfaction with compensation raises, it will increase their job satisfaction also. Furthermore, the main element that affects satisfaction with compensation is the fairness of compensation. Dissatisfaction with compensation will lower job appeal on individuals that will lead to increase in absence from work, job dissatisfaction and employee turnover. Job dissatisfaction eventually causes stress on employees (Lawler, 1971 in Suhartini, 2005).

Compensation has a vital role to organization and employees. High compensation shows organization's effort to maintain and improve their employees's well being. While low compensation can lower job satisfaction and productivity. According to Badriyah (2015) job satisfaction is one of important factor to obtain optimal work output. Satisfied employees will try to perform better to complete their duties which will improve their productivity and output. Therefore we propose the following hypothesis.

*H7: Merit pay influence to performance through job satisfaction as intervening variable*



**Figure 1. Theoretical Framework**

## **RESEARCH METHOD**

This study uses quantitative method with survey technique using questionnaire to obtain data from respondents. The survey was done at one time and research did not try to control the answer given by respondents. The research subjects are all employees at low management positions in Blora Tax Service Office with total 80 respondents. Such position was chosen because employees at low management positions don't have the power to rate another, so they can be considered the ones who are affected most by implementation of regulation 211/PMK.03/2020. Arikunto (2010) stated that if total population subjects are around 100 to 150, and the method is questionnaire, so all subject should be surveyed without exception. Data analyzed using SmartPLS application version 3.2.2. using outer model and inner model test.

## **RESULT AND DISCUSSION**

### **Outer Model Test**

Outer model test processes with validity test and reliability test. Validity test conducted with outer loading test, AVE and discriminant validity test based on result from cross loading and fornell-larcker criterion. Outer loading results between 0,5 – 0,6 is considered sufficient to pass

the requirement for convergent validity (Ghozali, 2014). Hair et al (2014) stated that if the model has AVE value above 0,5, that model can be categorized as having high convergent validity. If cross loading value of each item to its own variable is bigger than other variables, it is concluded to be valid. (Ghozali, 2014). According to Hair et al (2014) Fornell-Larcker criterion is valid when AVE square root value of each construct is bigger than correlation between construct. Reliability test can be done by checking cronbach's alpha value and composite reliability value which both must be above 0,7 (Ghozali 2014).

### Inner Model Test

Inner model tested by checking R-square, Q-square and path coefficient values to obtain information about how big latent dependant variable affected by latent independent variable (Ghozali, 2014).

#### 1) R-Square

R-Square value for performance variable is 0,375 which means 37,5% performance variable influenced by FDRPA, merit pay and job satisfaction variables, while other 62,5% influenced by other variables which are not in this research. R-square value for job satisfaction is 0,591 which shows 59,1% job satisfaction variable influenced by FDRPA and merit pay variables, while 40,9% influenced by other variables that are not in this research. R-Square value for performance variable with 37,5% shows that structural model considered to be moderate just as R-Square for job satisfaction variable with 59,1%. R-Square values with 0,19, 0,33 and 0,67 show weak, moderate and strong models (Chin, 1998 in Ghozali & Latan, 2015).

#### 2) Predictive relevance ( $Q^2$ )

We count *Q-Square* with formula :

$$\begin{aligned} Q^2 &= 1 - (1 - R1^2) (1 - R2^2) \\ &= 1 - (1 - 0,375) (1 - 0,569) \\ &= 0,744 \end{aligned}$$

Q-square value is 0,744 or 74,4% means structural model used in research has predictive relevance.

#### 3) Path coefficient and hypothesis test

Relationship between latent variable considered significant if path coefficient less than 0,050 with significance level 5% (Urbach & Ahlemann, 2010 in Ghozali 2014).  $H_a$  is accepted when t-statistic > 1,96 and p-values < 0,05 (Husein 2015).

##### a. Test for direct influence

Summary of path coefficient and hypothesis direct influence test results stated below:

**Table 2**  
**Summary of path coefficient and hypothesis direct influence test**

Hypothesis	Path coefficient	T-Statistic	P-values	Relationship
FDRPA → performance	-0,269	1,695	0,091	No significant effect
Merit pay → performance	0,161	1,181	0,238	No significant effect
FDRPA → job satisfaction	0,485	5,870	0,000	Positive and significant
Merit pay → job satisfaction	0,374	4,586	0,000	Positive and significant

Job satisfaction→performance	0,663	3,916	0,000	Positive and significant
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b. Test for indirect effects

Indirect effect test (with intervening variable) in this research was done with significance test and test to know mediation effect. Significance test conducted with data processing with SmartPLS 3.2.2 at specific indirect effect and sobel test. While for test to know mediation effect, we used causal step and VAF test. Summary of specific indirect effect test is listed below:

**Tabel 3**  
**Summary of specific indirect effect test**

Hypothesis	Path coefficient	T-statistic	P-value	Relationship
FDRPA→job satisfaction→performance	0,322	3,402	0,001	Positive and significant
merit pay →job satisfaction→performance	0,248	2,548	0,011	Positive and significant

Direct effect hypothesis test can be conducted through Calculation for the Sobel Test online (Preacher dan Hayes, 2008). Result from Calculation for the Sobel Test online listed below:

**Tabel 4**  
**Calculation for the Sobel Test Online Result**

Hypothesis	z-value	p-value	Relationship
FDRPA→job satisfaction→performance	3,257	0,001	Positive and significant
merit pay →job satisfaction→performance	2,974	0,001	Positive and significant

Table 3 and table 4 report that there is positive and significant effect from FDRPA to performance through job satisfaction as intervening variable. While the result from table 2 shows that FDRPA's direct influence on performance is not significant and its indirect influence shows significant outcome. With mediation effect test with causal step, it can be deduced that job satisfaction has full mediation effect on FDRPA's influence on performance.

Based on table 3 and table 4, merit pay influences performance through job satisfaction as intervening variable. And table 2 shows that merit pay's direct influence on performance is not significant and its indirect influence display significant result. Mediation effect test with causal step reveals that job satisfaction has full mediation effect on merit pay's influence on performance. Full mediation occurs if independent variable can only explain dependant through intervening variable. It shows direct influence is not significant, but its indirect influence significant (Rahmawansyah (2019) in Kussudyarsana et al (2020)).

To conduct mediation test with VAF test, the formula is:

$$VAF = \frac{\text{indirect influence}}{\text{total influence}}$$

If VAF value is bigger than 80%, it indicates full mediation. Furthermore, if VAF value is around 20% - 80% it is categorized as partial mediation. And if VAF value is lower than 20% it is almost no mediation effect (Ghazali and Latan 2014).



**Table 5**  
**VAF test summary**

<b>Hypothesis</b>	<b>Path coefficient indirect effect</b>	<b>Path coefficient total effect</b>	<b>VAF (%)</b>
FDRPA→performance	0,322	0,053	608
Merit pay→performance	0,248	0,409	61

Sumber: Output SmartPLS 3.2.2, Data Primer Diolah 2020

From table 5 above, job satisfaction's mediation test for FDRPA's influence on performance shows VAF value as 608% (above 80%) which means full mediation. High VAF value caused by total effect of job satisfaction's effect when mediating FDRPA's influence on performance has original sample as -0,269 (negative) which has an opposite result with indirect effect (ab) 0,322 (positive). Kenny et al (2015) stated that if c" (direct effect) has conflicting sign with ab (indirect effect), mediator used is a suppressor variable, which we can conclude this variable is inconsistent and has negative effect. Inconsistent model refers to model where there are at least one mediation effect that has different sign with another mediation effect or direct effect in model (Blalock 1969, Davis 1985, MacKinnon et al 2002 in MacKinnon, Fairchild and Fritz, 2007).

On other result, merit pay's effect on performance with job satisfaction as intervening has VAF value as 0,606 or 61%. This result indicates job satisfaction partially mediates merit pay's effect on performance. The dissimilarity between mediation effect in causal step test and VAF test caused by on causal step test only observes significance on direct and indirect hypothesis test without considering original sample value. Whereas in VAF test, we only use original sample from indirect effect and total effect test. The formula for total effect original sample is indirect effect original effect plus direct effect original sample. We get direct effect original sample from multiplication between merit pay's effect on job satisfaction original sample and job satisfaction's effect on performance original value without considering significance value. If indirect effect value is low while its direct effect value high, then VAF test value will be low which indicates the relationship is a partial mediation, such as relationship between merit pay on performance with job satisfaction as intervening variable in this research.

### **H1. There is no significant direct effect of FDRPA (X1) on performance (Y)**

Based on the result of direct effect test of FDRPA (X1) on performance (Y) on table 2, t-statistic  $1,695 < 1,96$  and p-values  $0,091 > 0,05$ , which means there is no significant direct effect of FDRPA (X1) on performance (Y).

### **H2. There is no significant direct effect of merit pay (X2) on performance (Y)**

From the result of direct effect test of merit pay (X2) on performance (Y) on table 2, t-statistic  $1,181 < 1,96$  and p-values  $0,238 > 0,05$ , which indicates that there is no significant direct effect of merit pay (X2) on performance (Y).

### **H3. There is a positive and significant direct effect of FDRPA (X1) on job satisfaction (Z)**

The result of direct effect test of FDRPA (X1) on job satisfaction (Z) on table 2 shows that t-statistic  $5,870 > 1,96$  and p-value  $0,000 < 0,05$ , which suggests that there is a positive and significant direct effect of FDRPA (X1) on job satisfaction (Z).

**H4. There is a positive and significant direct effect of merit pay (X2) on job satisfaction (Z)**

Based on the direct effect test of merit pay (X2) on job satisfaction (Z) on table 2, t-statistic  $3.916 > 1,96$  and p-value  $0,000 < 0,05$ , which indicates there is a positive and significant direct effect of merit pay (X2) on job satisfaction (Z).

**H5. There is a positive and significant direct effect of job satisfaction (Z) on performance (Y)**

The result of direct effect test of job satisfaction (Z) on performance (X) on table 2 indicate that t-statistic  $5,870 > 1,96$  and p-value  $0,000 < 0,05$ , which suggest that there is a positive and significant direct effect of job satisfaction (Z) on performance (Y).

**H6. There is a positive and significant indirect effect of FDRPA (X1) on performance (Y) with job satisfaction (Z) as intervening variable**

Based on result of summary of specific indirect effect test of of FDRPA (X1) on performance (Y) with job satisfaction (Z) as intervening variable on table 3, shows that t-statistic  $3,402 > 1,96$  and p-value  $0.01 < 0,05$ . While on table 4 from calculation for the sobel test online result shows t-statistic  $3,257 > 1,96$  and p-value  $0.01 < 0,05$ . From both results it can be concluded that there is a positive and significant indirect effect of FDRPA (X1) on performance (Y) with job satisfaction (Z) as intervening variable.

**H7. There is a positive and significant indirect effect of merit pay (X1) on performance (Y) with job satisfaction (Z) as intervening variable**

From the result of summary of specific indirect effect test of of merit pay (X2) on performance (Y) with job satisfaction (Z) as intervening variable on table 3, shows that t-statistic  $2,548 > 1,96$  and p-value  $0.11 < 0,05$ . While on table 4 from calculation for the sobel test online result shows t-statistic  $2,974 > 1,96$  and p-value  $0.01 < 0,05$ . From the results it can be concluded that there is a positive and significant indirect effect of merit pay (X2) on performance (Y) with job satisfaction (Z) as intervening variable.

**Discussion**

The results of the analysis of the first hypothesis found that FDRPA (X1) has no significant direct effect on performance (Y). This result contradicts research from Bates (2003) and Berger et al. (2013). Bates (2003) stated that FDRPA causes top performers to have better performance than average performers around 40%-100%. Research from Berger et al. (2013) from their experimental research, found that FDRPA improves productivity significantly around 8%.

The result from second hypothesis suggests that merit pay has no significant direct effect on performance. This finding is different compared to previous research from Nugraha (2017), Septiany (2018) and Wirawan (2015). Research from Nugraha (2017) and Septiany (2018) stated that merit pay has positive effect on performance. This finding contradicts research from Wirawan (2015) which suggest that merit pay is one of factors that influence employees performance.

The third hypothesis analysis has found that FDRPA (X1) has a positive and significant direct effect on job satisfaction (Z). H3 accepted proves that there is a positive influence from FDRPA on job satisfaction, meaning if FDRPA is well executed, it will affect job satisfaction positively in Blora Tax Office Service and if implemented poorly, FDRPA will cause job dissatisfaction. This finding is similar to previous research from Bates (2003) and Amalfe & Adelman (2002). Bates (2003) stated that FDRPA implementation without coaching caused employees dissatisfaction. Amalfe & Adelman (2002) explained that FDRPA rating process without objective criterion causes dissatisfaction on both rater and employee.

The fourth hypothesis analysis has found that merit pay has a positive and significant direct effect on job satisfaction (Z). Good implementation of merit pay system will influence positively to employee job satisfaction in Blora Tax Service Office. Meanwhile, if merit pay is implemented poorly, it will cause job dissatisfaction. This result strengthens the findings from Taylor (1911) in Sihombing (2009) and Miller & Whitford (2007). Research from Taylor (1911) in Sihombing (2009) indicated that big amount of compensation is the best predictor for job satisfaction. Miller and Whitford (2007) said that merit pay system influences job satisfaction level. Poor implementation of merit pay (such as unfair evaluation process, unfair evaluator, limited budget) causes frustration and employee dissatisfaction.

The result of the fifth hypothesis analysis has found that there is a positive effect from job satisfaction to performance. It suggests when employees have better job satisfaction it will affect employees to show better work performance in Blora Tax Service Office. This finding is in line with researches from Ristiana M (2013) and Lund (2003). Merry Ristiana M (2013) stated that job satisfaction has a positive and significant effect on performance. Research from Lund (2003) indicated that job satisfaction has a positive and significant effect on employee performance. Job satisfaction is identified as pay satisfaction, promotion, supervisor performance, work environment, and teamwork have a vital role to improve performance.

The results of the sixth hypothesis analysis has found that FDRPA has a positive and significant effect on performance with job satisfaction as an intervening variable. This finding is similar to research from Tohardi (2007) in Sefriani (2014) which stated that if an individual rated high in performance appraisal, it causes high-level job satisfaction and improves performance. Job satisfaction's role to mediate FDRPA effect on performance shows result as full mediation, which means without job satisfaction as intervening variable, FDRPA has no effect on performance.

The seventh hypothesis analysis has found that merit pay has a positive and significant effect on performance with job satisfaction as an intervening variable. This finding is similar with Mangkunegara, (2001) who suggested that if compensation want to encourage employees to work more productive and efficient, it has to induce job satisfaction. The results also supported by Robbins and Judge (2008) which stated that when employees feel satisfied and treated fairly, they will stay loyal and give their best to organization.

## **CONCLUSION**

This Study has found that FDRPA has no significant effect on performance in Blora Tax Office. This proves that implementation of FDRPA has no effect on performance. Merit pay also has no significant effect on performance, this reveals that performance improvement or decrease on Blora Tax Office didn't affected by merit pay. FDRPA has positive and significant effect on job satisfaction that if FDRPA is well executed, it will affect job satisfaction positively in Blora Tax Office Service. Merit pay has positive and significant influence on job satisfaction which means good implementation of merit pay system will influence positively to employee job satisfaction in Blora Tax Service Office. Job satisfaction has positive and significant effect on performance which suggests when employees have better job satisfaction it will affect employees to show better work performance in Blora Tax Service Office.

FDRPA has positive and significant effect on performance through job satisfaction as intervening variable. Improvement on FDRPA implementation will also improve employee performance in Blora Tax Service Office if the system includes and pays attention to job satisfaction factor. Merit Pay has positive and significant effect on performance through job satisfaction as intervening variable. Well executed merit pay system will improve employee performance in Blora Tax Service Office if job satisfaction factor is incorporated into the system properly.

## **Managerial implication**

This research reports that FDRPA has no direct effect on performance. FDRPA implementation on different organization types and cultures may generate different results. In profit-oriented organization, FDRPA affects performance because poor performers will be fired (Bates, 2003). This condition makes employees feel the urge to improve their performance. Other than that, culture also influences implementation of FDRPA. On a more westernized culture organization, which is more competitive and demanding, FDRPA is more likely to have an effect on performance. On the other hand, in government organizations such as this research, which has more traditional culture and the organization can't easily fire employees, FDRPA less likely to have an effect on performance. These findings can be used by Directorate of General Taxation and other organizations that use similar system to re-evaluate the implementation of FDRPA and merit pay which its initial purpose is to improve performance. Before implementing FDRPA, top management needs to ensure that their organization culture is suitable and ready to use this system. The readiness of organization, organization's values such as feedback and open communication play a role in deciding if the organization should adopt the system and how the system can be accepted and implemented properly.

Based on the research results, merit pay has no direct effect on performance. Little difference in compensation between top performers and others cause employees are not motivated enough to improve their performance. Therefore, to has significant performance improvement, merit pay in organization must give a notable difference in compensation between employees based on their performance.

This research proves that job satisfaction is a crucial variable because not only it mediates influence of FDRPA and merit pay on performance, it also the most dominant variable that directly affects performance. The importance of job satisfaction on performance can be utilized by Directorate of General Taxation or similar organizations to design future regulations or to improve current regulations (such as FDRPA and merit pay). According to Perdhana and Sawitri (2019), there are things that supervisor need to pay attention about individual attitude and job satisfaction such as: (1) Take notice of employee job satisfaction level as performance determinant, rotation, attendance, and their withdrawal behavior (2) Measure behavior objectively and regularly to determine how employees react about their job (3) To improve job satisfaction, employees need compatibility evaluation between their job and their interest, and employees need to be assigned a job that challenging and interesting enough for them. (4) Considering the fact that high salary alone is not enough to create job satisfied environment.

Fair treatment from superiors and co-workers is an indicator that has significant influence on job satisfaction. This finding indicates that Blora Tax Service Office should put more attention on relationships with superior and co-workers to ensure high level job satisfaction. Based on the research, FDRPA is heavily influenced by how well rater does the appraisal according to guidelines. FDRPA assumed to be credible when rater does the appraisal professionally and avoid any mistakes on the appraisal process. The most vital element in merit pay is fairness in application of compensation. Organization should pay more attention to this matter since fairness can stimulate positive attitude from employees when they feel appreciated for their efforts, satisfied and motivated to achieve organization's purpose. The ability to operate assisting tools on job is the most important indicator for employee performance in Blora Tax Service Office. Since most jobs at Tax Office are done digitally, this skill is indispensable in any position they are assigned to. To further improve performance, employees can upgrade this skill with training, coaching, etc.

### **Limitations and Recommendations**

One of the limitations of this study is this research can't be done on bigger scale because there are limitations to access required data. This problem is related to researcher's position as a low management employee and only has data access at office where researcher is assigned to. Other limitation is lack of previous research about FDRPA cause researcher to have issues to discuss FDRPA as deep as other topics.

Recommendations for future research based on this study such as: this research can be used as reference for future research to further deepen the research about the topic and add other variables like motivation (Gultom, 2015) and organization citizenship behavior(Chattopadhyay,2017).

Furthermore, Future research can further explore other factors related to job satisfaction. Some previous researches who already found link about job satisfaction and other factors such as Pitasari dan Perdhana (2018) who stated that six factors influence job satisfaction consisting of: job content, management, work environment, compensation, promotion and training. Research from Sawitri and Perdhana (2020) also found that young parents career congruence influence both directly and indirectly on life satisfaction through career decision-making self-efficacy and career exploration.

Lastly, future research can be done on much bigger scale in Directorate General of Taxation (or other organization with similar state). Future research should also increase population sample to get more accurate representation about regulation number 211/PMK.03/2017 and Directorate General of Taxation.

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